Year: 2019

Impact Investing for the Next Generation: Insights from Young Members of Investor and Business Families

Brown, Katherine ; Wood, David ; Paetzold, Falko

WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

Impact Investing for the Next Generation: Insights from Young Members of Investor and Business Families

In collaboration with the Initiative for Responsible Investment (IRI) at Harvard Kennedy School and the Center for Sustainable Finance and Private Wealth (CSP) at University of Zurich

June 2019

World Economic Forum
91-93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland
Tel.: +41 (0)22 869 1212
Fax: +41 (0)22 786 2744
Email: contact@weforum.org
www.weforum.org

Contents

Foreword

Katherine Brown, Head, Sustainable and Impact Investing Initiatives at the World Economic Forum

David Wood, Director of the Initiative for Responsible Investment (IRI) at the Harvard Kennedy School

Falko Paetzold, Director of the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich

Since 2015, the Initiative for Responsible Investment (IRI) at Harvard Kennedy School has collaborated with the World Economic Forum in the Family Business Community and impact-investing domains on a programme called Impact Investing for the Next Generation. The specialized Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich was founded as a result and joined the collaboration upon its initiation in 2017.

The programme closes an important gap: highly specific training for cohorts of young members of high-net-worth families who want to learn about impact investing – that is, to integrate social goals into investment decision-making, in a trusted university environment, based on science and practice. Efforts such as this have substantial potential to advance sustainable development. More than half of all global wealth – about $140 trillion – is concentrated among such investor and business families.[1] In particular, many younger family members have a deep desire to deploy their assets for the advancement of social and environmental sustainability. Yet opportunities for them to build their capacity, to learn about and discuss the topic in a trusted environment, are limited. Many are held back by a critical lack of trusted and practical information. This important barrier is, in part, due to the relative novelty of the theme – and misperceptions about it – as well as the prevalent secrecy in the private wealth space, which can hinder an open dialogue and flow of insights.

As such, this unique and highly specific programme was developed, working annually with cohorts of approximately 25 young members of high-net-worth families. By 2019, around 100 participants had graduated. They came from all parts of the world, had a broad range of backgrounds, yet shared the desire of many young investors and business owners today: to develop an impact-investing capacity in their personal and family investments.

In this document, we share some insights from this work, with the intention of highlighting what is required from young investors, their wealth advisers and the wider community for the creation of an effective impact-investment strategy.

This study is part of the World Economic Forum's decade-long effort to illustrate how corporations and investors can, through responsible leadership and long-term thinking, improve the state of the world. Family businesses are an important group in this space, as they are often driven by the values and outlook of their founding families: Thinking and acting in a sustainable and long-term manner is deeply rooted in their DNA, with different levers to address global challenges, including their operating business, their investment vehicles and their philanthropic platform. The advent of impact investing, in particular in combination with the desire that many young family members have towards that approach, provides a toolkit with which these family businesses can articulate and advance their value and dedication to society.

Getting started – understanding and navigating the field

The role of (young) private wealth owners and the main barriers to moving capital

Young members of investor and business families are increasingly interested in impact investing yet face significant barriers in deploying capital accordingly.

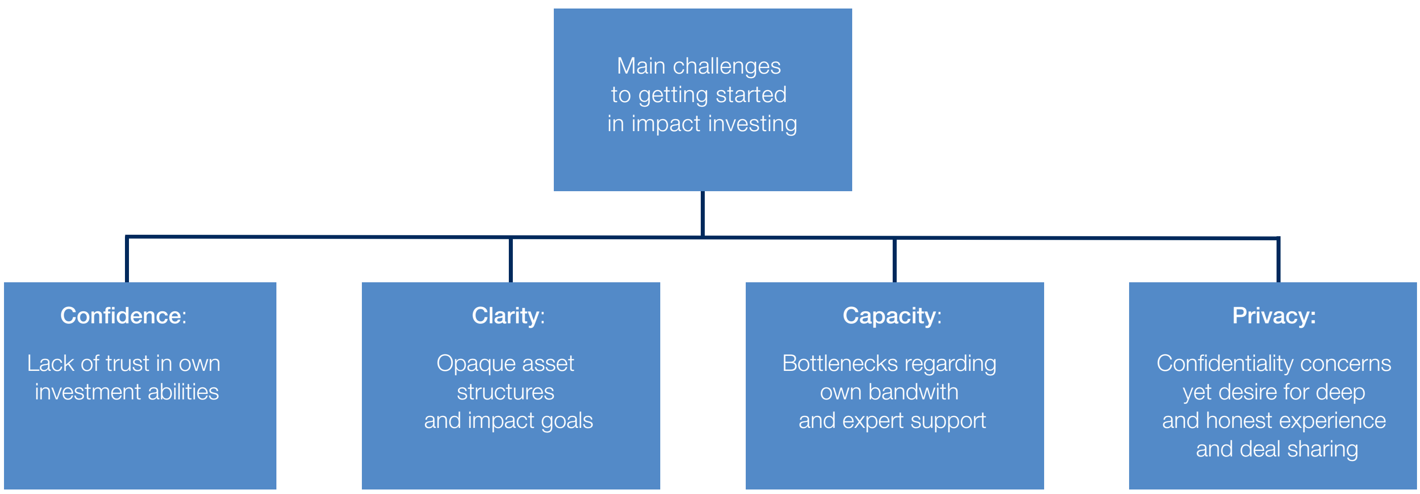
High-net-worth families and family offices play a significant role in the development of new strategies and vehicles such as impact investing; they control half of global wealth, they have the flexibility and resources to be first movers or early adopters and they are not necessarily bound by institutional conventions and return targets that inhibit the targeting of social development goals through financial means (although they often do face such restrictions).

In investor and business families, the “next gens” – as younger family members aged 20–40 have come to be known – often drive the discussion and adoption of impact investing, regarding the field as a way to integrate financial, environmental and social goals in a meaningful manner. As a group, next gens engaged in impact investing have formed peer networks to share information and opportunities, creating valuable spaces for the development of the field.

But, like other investors, next gens have also found the path to impact investing filled with challenges, such as developing effective impact-investment strategies, achieving buy-in from family members and wealth managers, identifying appropriate investment opportunities and evaluating the impact of investments.

The primary challenges for family members to get started in impact investing often include marginalized roles in investment decision-making, and a lack of confidence in their own capacity – while working with sceptical family members and investment advisers. The basic structures of their family wealth may be opaque and intractable to them. Unclear decision-making structures and vehicles such as legacy trusts or multi-family offices lengthen the chain between goal and execution. Family dynamics constrain direct discussion about the deployment and purpose of investments. Finally, in order to be effective as impact investors, next gens must translate their own social and environmental goals and concerns – about climate change, social equity, injustice etc. – into investment goals and strategies in the face of this scepticism, while at the same time facing time constraints, little expert support and few opportunities to learn from peers.

Figure 1: Four critical yet common barriers for (young) wealth owners interested in moving capital towards impact investing



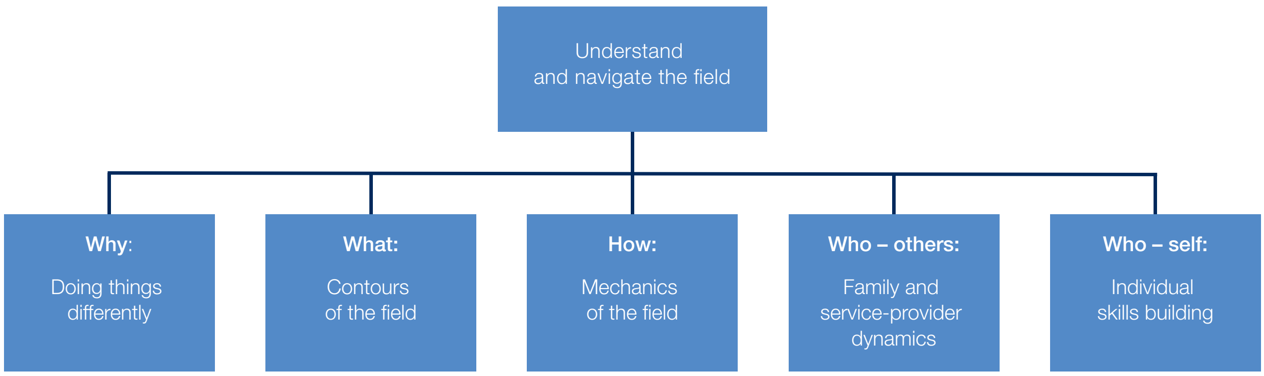
Helping wealth owners understand and navigate the field of impact investing

Starting with the why, what, how and who of the field.

Next gens are often eager to wade directly into the mechanics of impact investing, and they find value especially in sharing strategies and experiences with their peers and hearing from real-life case studies (some of which we outline below). Yet emerging impact investors often benefit from first establishing an initial frame of the theme. Of particular concern are questions of process: gaining enough knowledge about the field to engage credibly with families and services providers; identifying opportunities to build consensus around tangible strategies rather than amorphous intentions; and committing to following through on goals despite busy work and life schedules. As such, focusing initially on the following elements can be important to help next gens understand and navigate the field:

- **Why – doing things differently**: An underlying tenant of impact investing is that finance needs fixing if it is to better serve society more holistically and within the boundary of the natural environment – i.e. it is important to think of doing things differently. And, at the same time, that some of these aspects can be fixed through finance, hence motivating engagement with the theme.
- **What – the contours of the field**: Next gens often come with experience in one or another aspect of the field. To build a more complete perspective, however, requires a view across the full field of sustainable finance, including the approach of impact investing, and across the range of strategies, techniques, asset classes and geographies in which impact investing takes place.
- **How – the mechanics of the field**: The underlying mechanics for successful strategies include designing investment-policy statements that clearly articulate impact-investment goals, creating requests for proposals (RFPs), finding aligned advisers, learning how professionals underwrite deals for financial and social performance and exploring impact-investment management and measurement practices.
- **Who – family and service provider dynamics**: Of particular importance to next gens are the dynamics of engaging family members, as well as wealth managers and other advisers, who may be unfamiliar with or sceptical about impact investing. Identifying who and how to engage is complemented by creating consensus-building strategies that lead to investment and highlight the ethical, experiential and financial cases that promote impact investment. The programme encouraged participants to conduct a "listening tour" to develop an understanding of the asset structure and decision-making processes in their families, as well as the development of an initial impact policy statement.
- **Who – individual skills building***:* Next gens often – though not always – enter into family discussions from a position of relative disempowerment. The challenge of making the case for a new form of investing that may be counter to conventional practice requires the development of personal skills in addition to knowledge of the field. It helps to meet and learn from peers, and to develop strategies to credibly effect investment policies in the context of one's family business. One vital element is helping next gens undertake the due diligence process for an impact-investment fund and present the results to investment experts, to become familiar with the process and to understand the important questions to ask.

Figure 2: Elements to help wealth owners understand and navigate the field



Making the field manageable

Putting impact investing into perspective.

Next gens frequently came into the programme describing the impact-investment field as complex and confusing. The field involves acronyms (ESG, IRR, PRI, VC, PE, etc.), a jumble of terms (impact, responsible, social, sustainable, socially responsible etc.) and questions about social and financial return expectations.

Acronyms persist but are limited to a handful of important terms that can be covered by a short glossary. Definitions are a source of concern in the impact space. Importantly, the underlying premise is the same, whatever the term used: considering the impact that the allocation of capital has in the real world, and the impact that critical issues such as climate change or social justice have on the invested capital – i.e. the value of assets, as well as other effects such as the reputational, relational or emotional strains that might arise. While philanthropy, on one hand, is focused on positive outcomes and personal values, the capital is often deployed as grants and thus already accounted for. On the other hand, traditional finance has, until recently, focused on financial return and short-term profits, without explicitly considering environmental, social and governance (ESG) aspects, personal values or ethics. The "sweet spot" sits with firms or projects advancing sustainability based on market mechanisms.

Figure 3: Sustainable investing: spectrum of six approaches that integrate financial, social, environmental and ethical aspects

TRADITIONAL INVESTING	SUSTAINABLE INVESTING – Family of six investment approaches to integrate environmental, social and governance aspects, personal values and traditional financial indicators							PHILANTHROPY
Focus on financial returns, not on the real-world impact of investments	**Goal/approach**	**Exclusion**	**Best in class**	**ESG integration**	**Active ownership**	**Thematic**	**Impact investing**	Focus on societal returns, while the capital is foregone
	Description	Not investing in firms related to, e.g. coal, tobacco, weapons, meat production.	Investing in firms with an environmental, social and governance (ESG) rating score above a certain threshold.	Taking granular environmental, social and governance (ESG) data into account when analysing investment options.	Voting of share proxies at, e.g. Annual General Meeting of publicly listed firms in which one is invested. Active dialogue with management of those firms.	Investing in firms, projects, securities (e.g. green bonds) that relate to a sustainability topic, e.g. renewable energy, meat alternatives.	Investing in firms that intend to both solve a social or environmental problem, with measurable impact, and return investment capital.	
	Complexity of implementation	**Low**: Decide which sectors to exclude. Identify and exclude related firms.	**Low**: Decide the required minimum ESG rating score. Identify and exclude firms below that score.	**High**: Develop process to integrate ESG data into investment process.	**High**: Develop process to vote shares, and engage with management, of firms in the investment portfolio.	**Low**: Decide on themes to focus on. A rich ecosystem exists to source thematic investments.	**High**: The investments are often direct investments in firms, and often in developing markets, and hence are more difficult to find and to execute.	
	Potential for positive impact in the real world*	**Uncertain**: Real-world impact requires a critical mass of investors to screen for a specific practice and communicate this policy publicly ("sell and tell").	**Uncertain**: Real-world impact requires a critical mass of investors to consider reliably measured ESG performance aspects, so that firms work towards improving their ESG performance in that regard.		**Significant**: This is an important, proven mechanism in capitalism. Shareholders can coordinate their actions with each other, and have substantial impact, even if they own small portions of a firm.	**Uncertain**: Depends on whether the investment helps impactful companies to grow ("additionality").	**Significant**: Advancement of potentially important interventions and innovations.	

* Background: Koelbel/Heeb/Paetzold/Busch (2019), Can Sustainable Investing Save the World? Reviewing the Impact of Investors on Companies. Available on SSRN.

To operationalize that goal, a spectrum of approaches exists, in private and public markets, which combine financial returns, ESG aspects and personal values. Doing so is possible across asset classes. The approaches that are used to include these aspects are commonly known as exclusions (negative screening: i.e. excluding certain undesirable industries from an investment portfolio), best-in-class (positive screening) or the integration of ESG data into investment decisions (i.e. tilting a portfolio towards firms with better sustainability credentials). Furthermore, investors can be active owners by voting with their share proxies and engaging with the management of investee firms, or they can choose to deploy capital into firms that operate in sustainability-related themes (e.g. water, renewable energy) or firms that intentionally aim to solve a social or environmental issue. We also believe that it is important to touch upon the roles of philanthropy, family businesses and activism.

The question of social and financial returns is common and deserves attention. It is important to clarify that the interests of investors vary in that regard, and that their interests can be matched across the spectrum of approaches mentioned above: Some seek to maximize both social impact and financial returns. They might find such opportunities by identifying options in sectors or geographies that investors without an impact-angle more readily disregard (e.g. a private debt investment into a mobile payment service provider in East Africa), or focus on simpler approaches to integrate sustainability in public markets (e.g. a public equities fund actively engaging with investee firms on gender equality). Others aim to maximize the additionality and social impact of their capital, and hence focus on opportunities that might not have come into reality without their investment (e.g. being the seed investor into a first-time fund).

Thinking strategically about assets and timelines

Avoiding stress and inertia, and maximizing potential impact, by phasing the engagement with family assets and stakeholders over time.

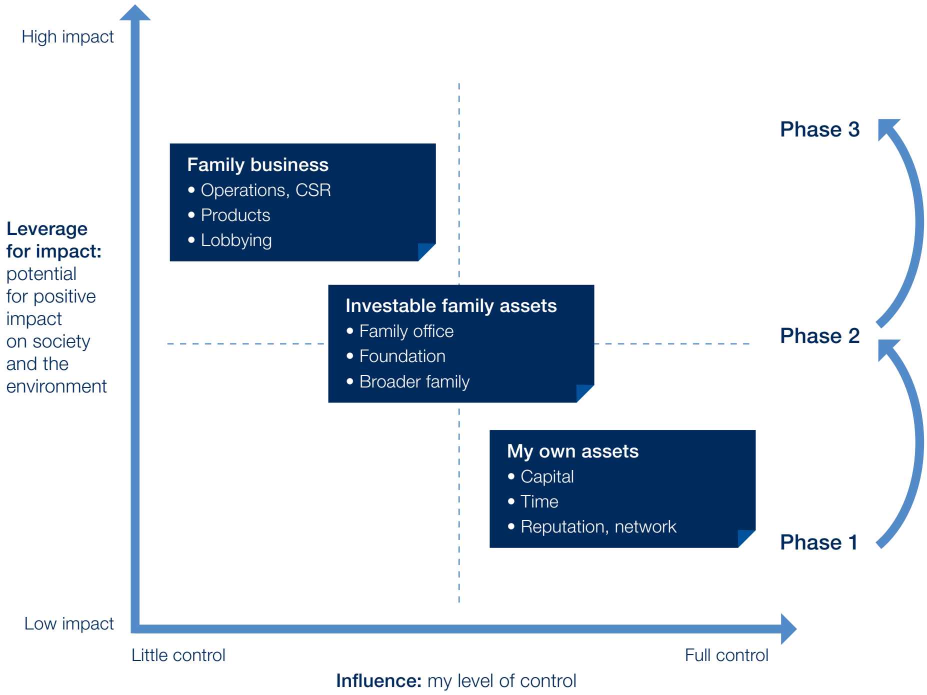
Next gens often begin by exploring options, investing in a particular impact-investment offering or having some discussions within their family about the topic. They join programmes, networks and conferences, in large part to better understand the field as a whole and make the topic of impact investing more tractable.

Amid the many success stories of impact investors and investees, and the substantial urgency that many next gens feel in light of social and environmental challenges, an important challenge for next gens can arise in the form of trying to accomplish too much too soon and perhaps getting stuck in the process.

Asset owners don’t have to be experts in the field (although some or our alumni have become professional impact investors themselves), but they do need to have a grasp on their goals, a strategy to get there and ways to assess whether they are achieving them.

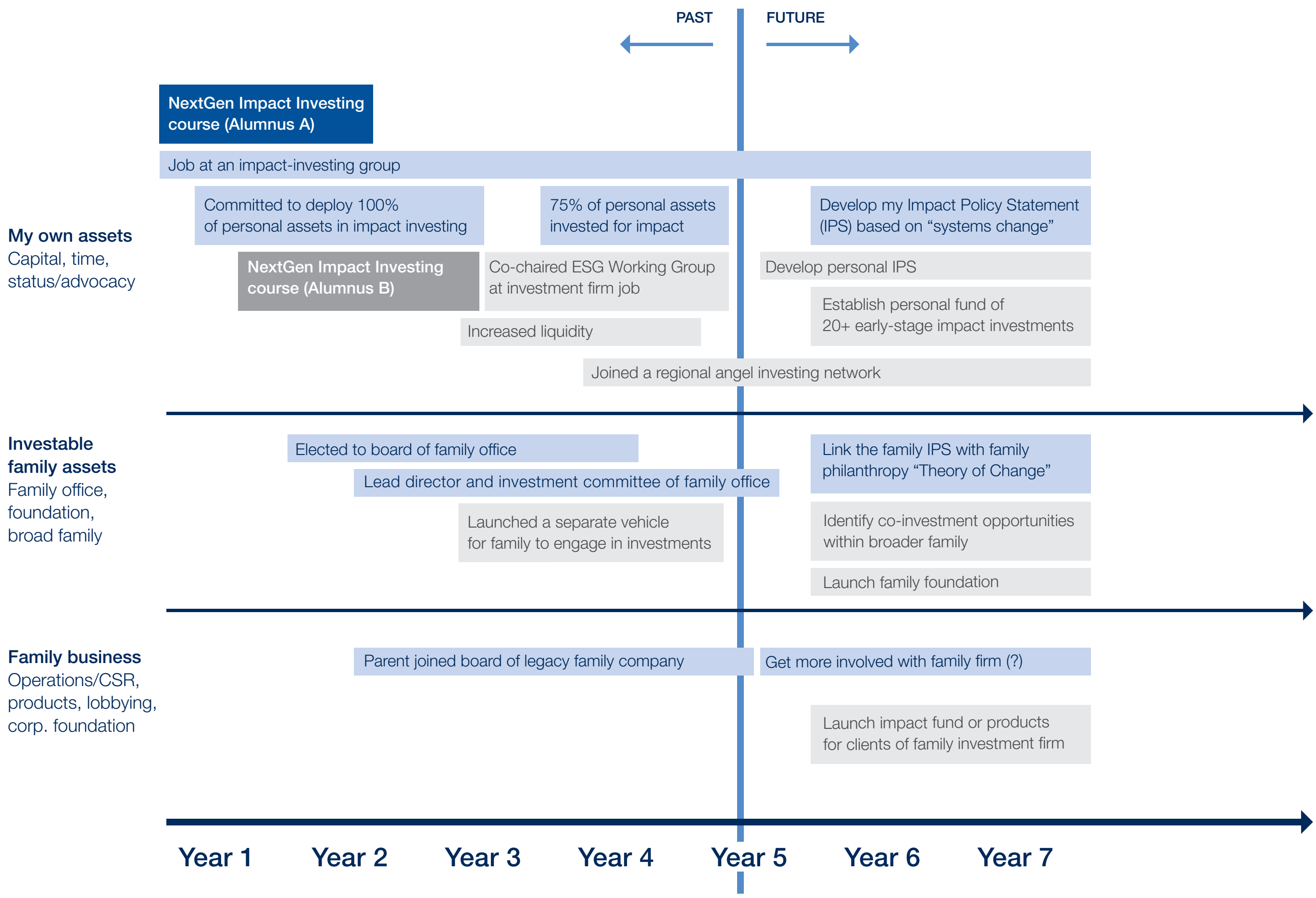
To start, emerging impact investors are encouraged to consider the scope of their control over different aspects of their family assets, and the magnitude of the potential positive impact on society from those assets. Sharing experiences with differing family-asset structures provides a rich background to better understand one’s own situation. Most next gens have control over their own investable assets, which includes capital, but sometimes also extends to work in impact investing, and with that their (family) name and reputation. Greater potential for positive impact, however, often lies with their family’s investable assets, such as the family office, and the broader family, including other streams. For families with substantial operating businesses, the highest potential for positive impact can sit within the family business; however, next gens often have the least influence over that asset. For example, this situation applied to alumnus “A” who participated in the programme in the 2015–2016 cohort. The alumnus had decided to, in a first phase, move personal assets to impact and work in the impact-investing field. In a second phase, the alumnus had used that initial experience to join the board of the family office. This was followed by, in a third phase, further efforts to introduce the idea of positive impact to the family firm via a family member, which, inspired and educated by the efforts of the alumnus in the family office, would bring the concept of positive impact to the firm’s board.

Figure 4: Alumnus "A" example – asset structure in the context of potential impact and level of control, and engagement with these assets along three consecutive phases



Discussing the family asset structures of other next gens helped participants understand their own situation better. Figure 5 outlines, in greater detail and over time, how alumnus A (blue boxes) and another alumnus (alumnus "B", orange boxes) phased their engagement with their family assets. This helped participants to gain clarity about their own strategies and mitigated the risk of being overwhelmed. Experienced impact investors sharing their personal experiences, over time and in sufficient detail, provides important guidance for phasing one's own engagement in the coming years.

Figure 5: Alumnus "A" and "B" examples – engagement with family assets over time

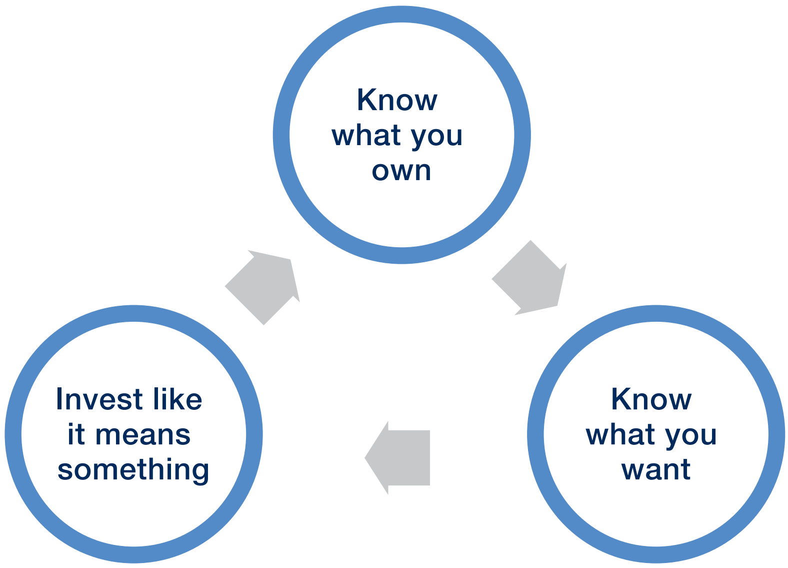


Developing an understanding of personal asset structures, decision-making processes, interests and goals towards an impact-investment strategy

Building a deeper understanding of how family assets are managed, developing goals and deploying capital with purpose.

A simple framework outlines three imperatives to guide wealth owners through the process of developing a strategy for deploying capital in impact investing, and to develop a clear understanding of their own situation and preferences in relation to these three dimensions:

Figure 6: Imperatives to build clarity and guide engagement in impact investing



Know what you own

Next gens, like all impact investors, will be most effective when they understand what is in their portfolio and how it got there. It is often surprising to realize how little some wealth owners know in this regard. It is valuable and illuminating to explore the family portfolio accordingly:

- **Assessing existing portfolios**. Review what is in the portfolio to find out what has been undertaken with social goals in mind, and how the other investments stack up against impact-investment goals. This review helps determine the next steps and builds familiarity with existing investment practices.
- **Reviewing how investment decisions are made.** As noted, investments are typically made via a complex agency chain, both within families and through service providers. A "listening tour" with families and other stakeholders who have influence over investment decisions helps next gens to better understand the mechanisms that drive decision-making.
- **Understanding the opportunity set of impact investments.** "Knowing what you own" implies an understanding of how that compares to the opportunity set of impact investments that could be in the portfolio. It also implies developing a method to assess how well wealth managers and consultants themselves have a hold on that opportunity set.
- **Exploring the personal skills needed for effective impact investing.** The process of learning what you own is a good way to assess personal skills and knowledge about investing, and identify which areas are ripe for further exploration. Of particular concern to next gens are skills that allow them to effectively and credibly drive impact-investing discussions with family and service providers. The listening tour format is a good first step to initiating regular discussions on the topic.

Know what you want

Impact investing requires clear goals, communicated effectively with family, service providers and other stakeholders who influence how investments are made:

- **Identifying personal and family goals** as well as techniques to develop consensus among multiple parties. Some next gens were surprised to find that what seemed to be shared goals among family members were harder to identify once more concrete investment strategies entered into the picture – this important first step of identifying goals can be difficult.
- **Translating goals into investment policy statements (IPS)** that link financial and social objectives in a coherent strategy. In the programme, next gens found it valuable to develop aspirational policy statements that could serve as rough first drafts for discussions with their families. Developing an IPS can offer a coordinating mechanism to develop consensus – the resulting statement can serve as a valuable touchstone when making and evaluating particular decisions.

– **Communicating goals to wealth managers, consultants and other service providers**. An important challenge in impact investing is the agency chain of decision-makers running from asset owners to consultants to fund managers – and part of "knowing what you want" is knowing how to clearly communicate these goals and to build systems that ensure they are met by those involved in the decision-making process.
– **Reflecting on personal goals in engaging in impact investment**. Next gens often balance the time and resources devoted to impact investment with other aspects of life. Specifying where they would like to devote personal time and energy, which practices they would rather delegate to others and what pieces of impact investing are lowest on the priority list are ways to manage that balance.

Invest like it means something

By its nature, impact investing is a departure from conventional investment practice. The main element for emerging private impact investors is this: Impact investment requires investors to seriously consider the effects of their investments not just on their portfolio returns but on the world. How is this behaviour change created in investment practices? This can be facilitated through a focus on the following elements:

– **Learning how to underwrite investments for social impact** as well as their investment return. In our work, we encourage emerging impact investors to work with each other, guided by impact-investing experts, to conduct mock due diligence projects on impact-investment funds, to learn what is required by professional due diligence and to better understand their own goals in evaluating funds. The goal is not necessarily to develop deep expertise, but rather to be able to assess expertise and to gauge how funds relate back to the stated goals.
– **Reviewing methods for evaluating impact**. A variety of methods are used by practitioners to evaluate impact investments. These include assessing the logic model from the underlying problem through to the desired impact that is to be achieved, gauging which project outputs and outcomes can yield that impact, and which interventions by the impact investee can provide these outcomes and outputs. Emerging impact investors can also use this logic model to evaluate the different stages of such processes. To do so, they can engage with the resources of the Impact Management Project (IMP),[2] apply existing models such as the Global Impact Investing Rating System (GIIRS)[3] and the Impact Reporting and Investment Standards (IRIS),[4] and explore the challenges in developing credible and usable systems of measurement and management.
– **Integrating impact investment into other efforts to improve the world.** Investment is only one tool among many, and we ask impact-minded wealth owners to consider meaningful investment strategies in the context of other efforts (philanthropic, advocacy, policy etc.) to improve the world. Working with frameworks such as the United Nations Sustainable Development Goals (SDGs)[5] helps to consider when investment is, and isn't, an appropriate tool to address the problem at hand or whether the root causes require other strategies.

Together, these imperatives are meant to help emerging impact investors achieve clarity, making the field tractable by breaking down important elements involved in impact investing, and creating important signposts to help along the way. They are intended to preserve the complexity and intrinsic interest of the field while creating paths of engagement for family members of varying backgrounds, skill sets and goals.

In the context of the programme, they are also intended to help manage how participants engage with the field after the classroom work has ended, by framing ongoing processes for what is necessarily a long-term project. These imperatives don't result in a toolkit – there is no one-size-fits-all toolkit for this field – but they do help lay out the steps that can be taken to make impact investment meaningful.

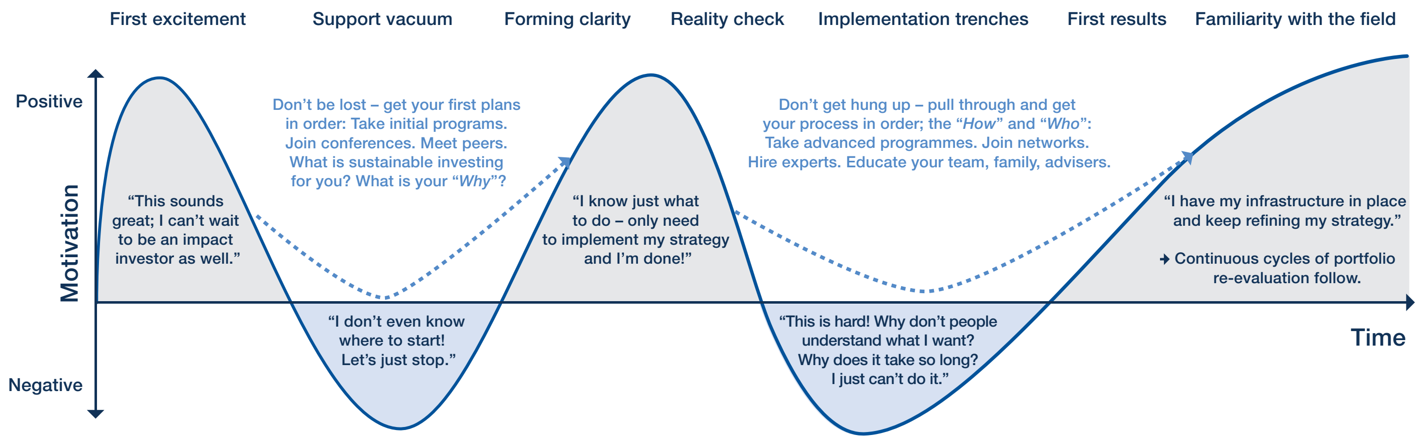
Building capacity for the implementation of an impact-investment strategy

The main challenges for emerging impact investors lie in managing their own capacity and time while developing consensus in the family.

Impact investing is unlikely to yield short-term results. It takes time to develop strategies, not to mention execute them, then to monitor the impact and adapt to new information or changes in the particular fields. However, after four cohorts and 100 participants we can report on what we have seen as participants have explored investments and, in some cases, begun actively investing with social goals in mind.

Emerging impact investors were often excited to begin their engagement with impact investing, followed by a sometimes rather challenging realization of the difficulties they might face in shifting assets and engaging stakeholders. The resistance that investors face when calibrating their impact strategies and moving capital can have a negative effect. To be aware of these challenges and to build the capacity to overcome them can be critical in remaining committed to impact investing. Programmes such as the Impact Investing for the Next Generation platform promote engagement with peers, networks and experts. This can be an important factor in achieving initial successes – followed by the reward of building an impact portfolio and finding one's place within the very supportive community of impact investors.

Figure 7: Schematic illustration of a common development of emerging impact investors over time in relation to their level of motivation



As such, we identified three overarching avenues to overcome the potential difficulties of developing and implementing an impact-investment strategy:

- **Carve out time and resources** to devote to initial impact-investment commitments.
- **Develop consensus** with family and other stakeholders on tangible strategies.
- **Establish continuity** from initial asset reorientation to continuous impact portfolio development.

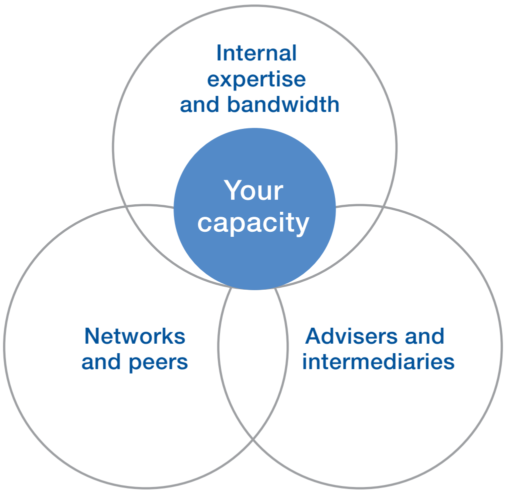
Carve out time and resources to devote to initial impact-investment commitments.

Unsurprisingly, carving out the time and resources to effect behavioural change amid daily working lives – i.e. *internal expertise and bandwidth* – is an important barrier for impact investors to achieving the impact they would like to have. To alleviate this, a common solution is to use *networks and peers*; to join industry-specific conferences, such as SOCAP or Impact Days, or a network, such as Toniic, The ImPact, Pymwymic, CREO Syndicate or Co-Impact, all of which have their own identity and focus, and allow impact investors to continue learning and engaging with peers. Such networks provide the benefits of sharing personal experiences openly and in a trusted environment. Having such a trusted community is critical for emerging impact investors to overcome these initial challenges.

There are multiple opportunities to talk about impact investing – indeed, one of the criticisms of the field is that there are many opportunities to talk about investing while actual investment remains relatively scarce. But we have also seen peer networks help concentrate attention on the field, and disseminate information about strategies, opportunities and collaborations that can yield concrete results.

We have also found that a critical component in building individual capacity to advance towards impact, or not, is to have access to truly supportive *advisers and intermediaries*. We found that this is a substantial bottleneck for many wealth owners: a lack of specialized support from experts while traditional advisers are unwilling to explore impact investment.

Figure 8: Components of wealth-owner capacity involved in advancing impact investing



Develop consensus with family and other stakeholders on tangible strategies.

In regard to the programme, participants – not all, but a substantial number – took up impact investment in varied ways. In some cases, this has meant initiating discussions on the subject with families and wealth managers.

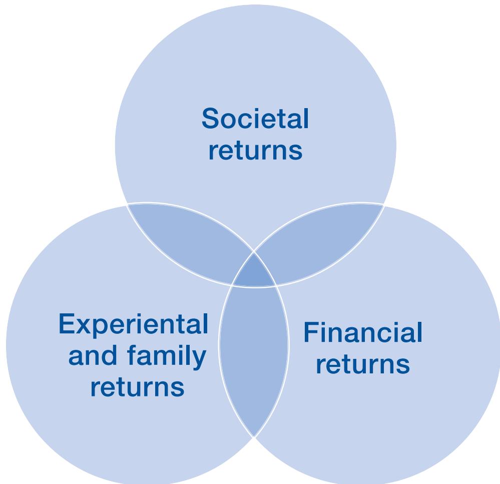
For instance, one next gen brought her advisers, unfamiliar with the field, to an industry conference to expose them to what she had worked on in the programme. The advisers developed their own capabilities as a result. Their emerging expertise was then complemented through the hiring of a full-time expert in impact investing, which also advanced the ongoing integration of the impact goals pursued in the investment portfolio with those of the next gen's philanthropic activities.

A well-defined personal impact policy statement (IPS; see a potential structure in Appendix A) – that is, a definition of the objectives of one's impact-investment strategy – is of great value in helping develop consensus with family and advisers. One next gen worked with her family to develop an IPS for the family foundation – often less controversial to stakeholders that might otherwise be as yet uninformed and critical in terms of impact investing. This formed the basis of her educating the family and led to her expanding the scope of the IPS in regard to the family assets. Similarly, another next gen started with his family foundation, integrating an impact-investment strategy into what had previously been just a grant-making institution. This, in turn, opened up a broader family conversation about building impact-investment strategies into the family office.

Others took up shareholder engagement through their advisers (and, in one case, directly engaged investee corporations on environmental issues), made exploratory investments in impact-investment funds or, in some cases, made direct investments in social enterprises.

Next gens have used varying arguments with their families and advisers in order to build up support to implement their strategies. For some, the goal of family (intergenerational) cohesion and engagement with family wealth has gained support: i.e. experiential and family returns. This argument is often powerful with older family members who appreciate impact investing as a means to engage younger family members in the development of investment skills. Others have concentrated on the social value their practice creates, or highlighted research that suggests impact investing need not bring about financial ruin. As such, it is helpful for next gens to be sufficiently versed in the specific arguments and evidence in favour of these claims, in addition to having a situational understanding of how and when they are best deployed.

Figure 9: Argumentation areas for developing consensus on impact investing among stakeholders



Establish continuity from initial asset reorientation to continuous impact portfolio development

Some alumni dedicated substantial time and resources to impact investing, developing sector-specific investing practices, taking jobs in the impact-investment sector or even beginning to develop impact-investment funds they would run themselves.

There are shared challenges in very different personal and family situations. Developing consensus can prove difficult, even in families that are largely aligned in terms of shared social goals. In some families, interested next gens have banded together to collaborate with cousins or other extended family members to create demonstration projects for the broader family, and individuals have either carved out family funds or used their personal funds to manage (real and perceived) risks in new investment strategies.

Finally, a few of the most active next gens have pushed against the boundaries of the impact-investment field. One moved to innovative structures and concessionary return models in order to prioritize social impact in a portfolio originally designed to mimic market benchmark returns. Another focused on philanthropy as a tool to create radical change in the financial system and elsewhere while maintaining a goal of incremental progress within the investment portfolio.

Moving ahead over time – sharing experiences from alumni

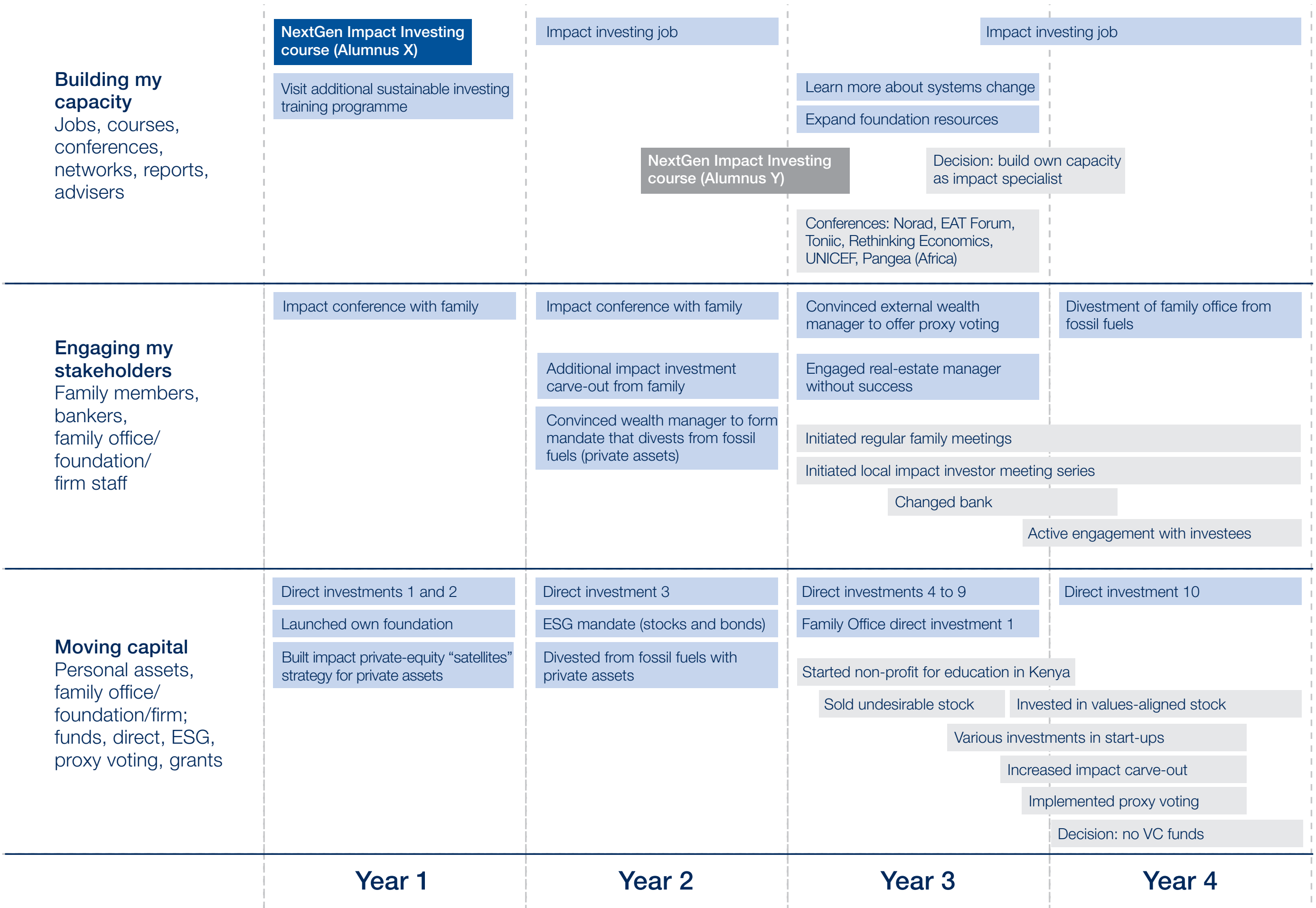
Over time, success in the implementation of an impact-investment strategy depends on the continuous development of capacity, carefully engaging with stakeholders and strategically moving capital step by step. Thinking along a timeline of several years can reduce anxieties and provide guidance.

As we develop a more thorough picture of the experiences of alumni, activities such as those outlined below appear to be important for the implementation of impact-investment strategies over time:

– **Build capacity**: Pursuing learning opportunities through impact-related jobs and internships, courses or programmes as well as conferences, and getting guidance from experts, peers and networks, while exploring reports and other sources of information.
– **Engage stakeholders**: Continuously and strategically interacting with family members, service providers and staff to help them understand the field and to build a common understanding and vision.
– **Move capital**: Moving step by step by implementing first strategies and investments over time, often starting with dedicated carve-outs or personal assets.

We have provided two examples of alumni to illustrate the specific activities they tend to engage in following the programme (see Figure 10). Alumnus “X” (blue boxes) decided to pursue a career in the field, build a foundation and, over several years, engaged family and service providers, while moving private funds and family capital towards impact investments. Alumnus “Y” (orange boxes) decided against a career in the field yet has allocated time to developing impact-investment capabilities, initiated regular family meetings and a local series of meetings with impact investors. Other alumni have decided not to increase their personal involvement; instead, they have brought in expert advisers or reallocated assets to impact mandates within their bank or family office or with other service providers.

Figure 10: Selected activities of two alumni building their capacity, engaging stakeholders and moving capital since graduating from the programme



Emerging impact investors who feel very passionate about the need to move quickly in regards to their investments can become restless and frustrated when they are constrained by capacity bottlenecks or resistance among family members or advisers. Alumni sharing their experiences and helping others think of their upcoming activities taking place on a timeline of several years can be an important step in reducing anxieties that could otherwise be harmful to their overall engagement.

Conclusion

The first 100 participants who graduated from the Impact Investing for the Next Generation programme illustrate the demand for many members of investor and business families from around the globe to engage in impact investing. This provides a significant signal to those who are interested in social and environmental sustainability, given the substantial assets, political and societal power and capacity for innovation that private investors can deploy.

There are often obstacles that hold such investors back: These include personal barriers as well as hurdles that emerge from the way private assets tend to be managed. Such challenges can be overcome, and the potential of emerging impact investors can be realized, by helping to make the field manageable and by providing the right tools – and a safe space in which to apply them – for their individual situations.

Initial excitement about the impact-investment field, and the desire to dive right into it, tends to be high among emerging investors. These rightfully high hopes can be hit hard, and progress stalled, once the realities of the still-emerging opportunities arise in the form of personal-capacity bottlenecks and resistance among family members and advisers.

Training programmes, networks and conferences, contact with peers and experts, and a clear impact-investment strategy can help overcome such difficulties and ensure motivation and momentum are maintained. A clear picture about the required time and resources, consensus with the primary stakeholders and availability of sufficient structures can be critical in developing the impact-investment strategy beyond the initial reallocation of assets.

To continue their investment strategies over a number of years, emerging impact investors can also move capital towards investees and approaches with positive impact on a step-by-step basis. This often starts with a dedicated carve-out in which they integrate ESG criteria in their investment decisions, engage in proxy voting for companies where there are shareholders, and pilot direct investment into impact-driven companies.

“Rome wasn’t built in a day” – and neither is an investment portfolio that integrates positive impact. Building meaningful strategies takes time and deserves careful stewardship. Know what you own, know what you want and invest like it means something – the results are important and meaningful for impact investors and the world.

Appendix

Elements of an Investment Policy Statement (IPS) vary depending on the preferences of impact investors, yet revolve around the same core aspects, as illustrated in the following three example structures.

Example 1

1. Investment strategy, policies and filters
2. Three sets of objectives: impact, financial and experiential
3. Constraints and commitments (time, energy, treasure)
4. Roles, responsibilities and decision-making processes
5. Asset to be allocated with range flexibility and benchmarks
6. Managing and reporting process of status to stakeholders

Example 2

1. Preamble describing intentions/values
2. Impact objectives
3. Financial objectives
4. Return/risk objective
5. Asset allocation targets
6. Investment selection process
7. Benchmarking and evaluation process

Example 3

Rationale	**1. Motivation:** Why the IPS has been developed, general intent, main stakeholders addressed and the level of desired leadership
	2. Ethical vs. performance orientation: Balance of ethical/values-based vs. performance-based rationale for sustainable finance, or a point in between
Parameters	**3. Approaches to integrating sustainable finance:** Choose the approaches to be considered (exclusion, best-in-class, engagement, etc.)
	4. Asset classes: Decide on the scale and scope of the envisioned integration of sustainable finance for each asset class
Approach	**5. Link to CSR or philanthropy strategy:** Clarify aspects of CSR/philanthropy to be linked to the IPS
	6. Active ownership: Decide scope of voting across geographies and strategies, decide engagement activities, decide integration of ESG/ethics aspects in both
Implementation	**7. Organizational responsibility:** Clarify the guide owners, tasks, processes and responsibilities within the firm and towards external stakeholders
	8. Measurability vs. intentionality: Clarify if outcomes and implications of the guide are clearly defined and attached to KPIs, or broad and intentional
	9. Communication: Regularity and detail of reporting and communication of advancements and implications

Acknowledgements

Authors
David Wood – Director of the Initiative for Responsible Investment (IRI) at the Harvard Kennedy School

Falko Paetzold – Director of the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich

The “Impact Investing for the Next Generation” programme was initiated in 2015 as a collaboration between the World Economic Forum and the Initiative for Responsible Investment (IRI) at Harvard Kennedy School; it was joined by the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich upon its subsequent initiation by 2017. In particular, we would like to thank the following four co-founders for their leadership and thoughtful execution of this programme, and the support of the Forum team members involved throughout:

- Temple Fennell – Board Member at the Keller Enterprises Single Family Office; Fund Manager at Clean Energy Venture Fund
- James Gifford – Head of Impact Investing at UBS Wealth Management
- Falko Paetzold – Director of the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich
- David Wood – Director of the Initiative for Responsible Investment (IRI) at the Harvard Kennedy School

- Andrienne d’Arenberg – Head, Family Business Community at the World Economic Forum
- Katherine Brown – Head, Sustainable and Impact Investing Initiatives at the World Economic Forum

Endnotes

1. James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2018.
2. Impact Management Project: https://impactmanagementproject.com (link as of 2/6/19)
3. Global Impact Investing Rating System: https://b-analytics.net/giirs-funds (link as of 2/6/19)
4. Impact Reporting and Investment Standards: https://iris.thegiin.org/ (link as of 2/6/19)
5. UN Sustainable Development Goals: https://www.undp.org/content/undp/en/home/sustainable-development-goals.html (link as of 2/6/19)

WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

The World Economic Forum, committed to improving the state of the world, is the International Organization for Public-Private Cooperation.

The Forum engages the foremost political, business and other leaders of society to shape global, regional and industry agendas.

World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org